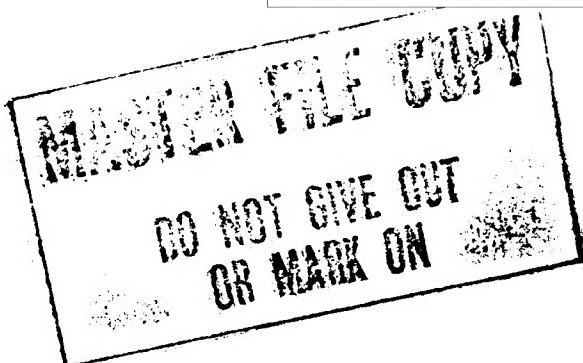


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ASEAN: PROSPECTS FOR THE 1980s AND IMPLICATIONS FOR US POLICY

Information available as of 15 June 1983 was
used in the preparation of this Estimate.

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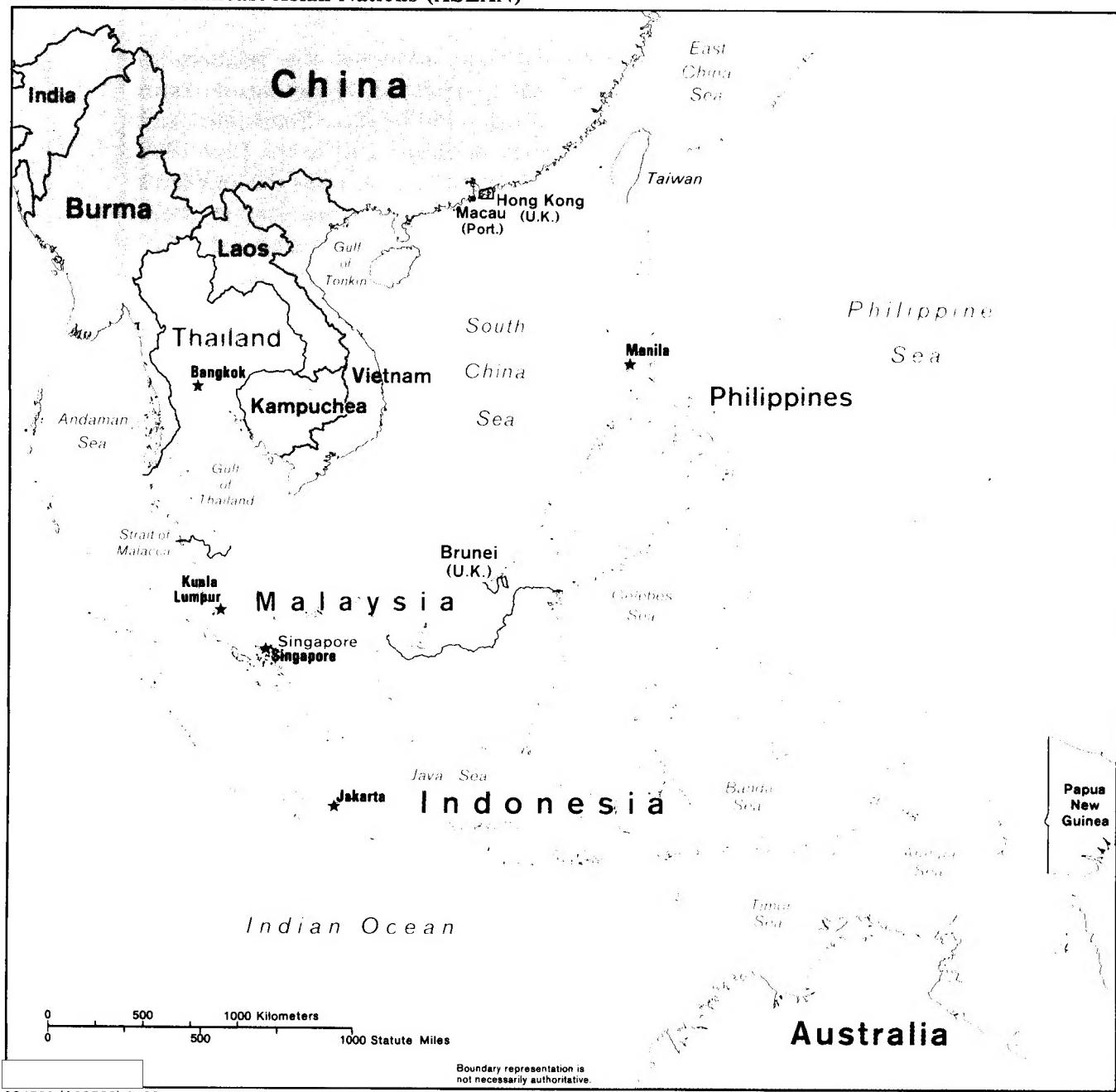
SCOPE NOTE

This National Intelligence Estimate addresses the relationship between the United States and the Association of Southeast Asian Nations (ASEAN)—Indonesia, Malaysia, Philippines, Singapore, and Thailand—on the eve of the Secretary of State's visit to the June 1983 ASEAN Post-Ministerial Meeting at Bangkok. It assesses the problems and prospects for ASEAN members and for the organization itself. Separate annexes provide background on organization, expanded membership, and economic issues. The Key Judgments describe our expectation that, although political and economic problems will persist, the ASEAN region as a whole will remain one of the most prosperous and stable regions in the Third World.

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Association of Southeast Asian Nations (ASEAN)



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KEY JUDGMENTS

The ASEAN nations' prospects for political stability, economic growth, and regional tranquillity are among the best in the Third World.

The region will remain basically pro-US and anti-Communist for the foreseeable future, although ASEAN as an organization will avoid overidentification with outside powers. The states will remain suspicious of the USSR's intentions in the region, as well as of China and Vietnam, which they view as posing the greatest potential threat to their security.

Previous intra-ASEAN frictions and disputes have become more muted over the past several years, in part because of these perceived threats. We expect increased ASEAN intelligence and security cooperation, but we do not foresee that ASEAN will develop a formal military alliance.

All the ASEAN states are committed to a political solution in Kampuchea, which in ideal circumstances would include the withdrawal of Vietnamese troops and free elections. Differences of view exist, however, and unilateral probes by ASEAN members to resolve the Kampuchean issue will continue. These are unlikely to disrupt ASEAN unity.

The established ASEAN preference for a personalized, ad hoc system of consensus building will continue, as will resistance to a strong centralized bureaucratic structure.

Only limited progress is anticipated in reaching economic integration within ASEAN. Nor will ASEAN develop into a free trade area, much less a common market, over the next decade.

ASEAN economic growth will continue to outpace that of other less developed regions, making it an expanding market for US exports and investment. Japan will remain the region's leading economic partner and present the stiffest competition for the United States.

We expect that ASEAN nations will continue to focus on their own economic progress, try to take advantage of Sino-Vietnamese rivalry to deflect the threats from those countries, and rely largely on the US presence in the region for their long-term security. They will seek and welcome more US trade and investment, striving to improve what they regard as inequitable terms of trade.

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In sum, political and economic problems will persist in individual ASEAN countries, and US-ASEAN relations may be strained by differing views on economic, maritime, and refugee issues, and possibly over US relations with China. Nevertheless, we expect no major challenges to US economic and political ties with the ASEAN nations over the next few years.

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DISCUSSION

The United States and ASEAN— Near-Term Prospects

1. At least in the near term, the ASEAN nations as a group (Indonesia, Malaysia, Singapore, Thailand, and the Philippines) present no major problems for the United States. As staunch anti-Communists, ASEAN members welcome a US presence in the region to counter pressure from Vietnam, the Soviets, and China.

2. ASEAN's economic value as a producer of primary commodities, center for investment, and growing market for US goods make it important to the United States. In the near future, US commercial prospects in Southeast Asia look bright, especially relative to those in other less developed country (LDC) regions. Although some countries—Indonesia and the Philippines—are trimming their development programs because of foreign exchange stringencies, the region's economic growth is likely to top the LDC average. The United States, because of a strong dollar relative to the yen and the highly aggressive nature of Japanese export competition, may lose some of the market share it gained during the 1970s. Nevertheless, the region's political stability and good economic prospects offer considerable potential for US exports.

3. Despite the basic convergence of interests, some frictions exist and are likely to continue between the United States and ASEAN. For example, ASEAN reacted favorably to stepped-up US assistance to Thailand in response to the Vietnamese presence in Kampuchea, but there are differences within ASEAN over how prominent a role the United States should play. Although ASEAN sees the United States as playing a key role in the continued political and economic stability of Southeast Asia, sentiments opposed to interference by outside powers are never far below the

surface. ASEAN does not see these sentiments as being aimed against the United States, but rather as steps to inhibit big-power involvement in the region. ASEAN's stand on some economic issues may also conflict with US interests. Criticism of the United States will be tempered, however, by ASEAN's desire for technology transfer and increased trade and investment.

4. ASEAN, as a regional organization for mutual support and protection, has made progress toward cohesion since its founding in Bangkok. The Bangkok Declaration establishing ASEAN was signed on 8 August 1967 by Indonesia, Malaysia, Singapore, Thailand, and the Philippines. While it stressed economic, social, cultural, and technical cooperation, the underlying goal of the signatories was regional political stability in the face of Chinese-supported insurgencies and Communist aggression in Indochina. The first major initiative of ASEAN came in 1971 when its foreign ministers called for creation of a Zone of Peace, Freedom, and Neutrality in Southeast Asia—the ZOPFAN concept. (See inset.)

ZOPFAN

The formal cornerstone of ASEAN foreign policy is the concept first enunciated in 1971 of Southeast Asia as a "Zone of Peace, Freedom, and Neutrality (ZOPFAN), free from any form or manner of interference by outside powers." The ZOPFAN concept asks that the Big Powers recognize and respect ASEAN's neutrality. Vietnamese aggression and the expansion of the Soviet presence in the region have led most ASEAN officials to describe ZOPFAN as a long-term goal which is unrealistic under the present circumstances. For the foreseeable future, the ASEAN countries will welcome a regional US military presence, and look to the United States as a major supplier of military equipment and defense-related economic support.

5. Regional cohesion is a fresh and still-tentative concept for the ASEAN partners, which until recent years valued their special bilateral ties with major outside powers more than relations with each other.

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The American military withdrawal and the fall of all non-Communist governments in Indochina brought a new sense of urgency to the Association. In 1976 and 1977 the ASEAN heads of state affirmed their support for ZOPFAN and regional cooperation as essential to peace. Steps were taken to establish a permanent ASEAN secretariat. Vietnam's signing of a Treaty of Friendship and Cooperation with Moscow and the invasion of Kampuchea in 1978 promoted further ASEAN cohesion.

6. The ASEAN governments continue to resist a strong centralized bureaucratic structure for the Association, preferring a more personalized and ad hoc system of consensus building. ASEAN leaders are reluctant to relinquish the prerogatives of sovereignty, but they increasingly value ASEAN solidarity and point to ASEAN unity as the linchpin of their foreign policies. Reflecting this viewpoint, a network of contacts and informal exchanges continues to spread among the bureaucracies and increasingly among the private sectors of the ASEAN countries, which will in time strengthen the sense of regional identity.

ASEAN's Major Concerns

Strategic

7. ASEAN views Vietnam's occupation of Kampuchea as the most immediate threat to the stability of the region. Concern over Kampuchea has been great enough to bring about ASEAN's most significant public declaration of cooperation—a joint call for the withdrawal of Vietnamese troops from Kampuchea and an avowal of support for the Kampuchean resistance. Despite differences of opinion among ASEAN states on the nature of the threat, ASEAN is publicly committed to:

- A political solution within the framework of relevant UN resolutions and the Declaration of the International Conference on Kampuchea (ICK).
- Support for the coalition of Kampuchean resistance.
- Political, diplomatic, and economic pressure on Vietnam.

8. Thailand, Singapore, and more recently Malaysia, the most enthusiastic ASEAN states in support of Kampuchea, have brought the others into a consensus

favoring political support to the anti-Vietnamese resistance coalition—the CGDK—and have taken the lead in providing material aid for the non-Communist factions of Son Sann and Prince Sihanouk. The Thai have furnished supplies and advice to the non-Communists, served as a conduit from other ASEAN states to the non-Communist Kampucheans (and from China to the Khmer Rouge), and have reacted to Vietnamese attacks on the border camps. Singapore has contributed arms and ammunition, and Malaysia material support and guerrilla training, to the non-Communists. The Philippines are adhering to the ASEAN political consensus, but have offered little except some medical supplies. Indonesia, questioning the usefulness and propriety of military aid to Kampucheans, has sent only humanitarian medical aid.

9. ASEAN lobbying efforts at the United Nations have succeeded in preserving the seating of the Democratic Kampucheans, despite annual efforts by Hanoi to replace them with the Heng Samrin delegation. The ASEAN delegates are also generating increasing support for a UN resolution calling for withdrawal of all foreign forces from Kampuchea and self-determination for the inhabitants.

10. ASEAN persuaded Japanese Prime Minister Nakasone, during his visit last month to ASEAN capitals, to strengthen Japanese support for the ASEAN policy of opposing the Vietnamese presence in Kampuchea. In this and other policy aspects, the Japanese visit helped to solidify Japanese-ASEAN relations. Nakasone, on his return to Tokyo, reaffirmed the Japanese freeze on aid to Vietnam, increased assistance to Kampuchean refugees, and openly supported the ASEAN position on Kampuchea.

11. On the other hand, the policies of the new Labor government in Australia are causing some concern in ASEAN states. Labor policy calls for restoration of aid to Vietnam, intended to provide an alternative to Vietnam's close association with the USSR. The Australians are also unwilling to support the CGDK because Pol Pot's forces are included in the coalition. Nevertheless, as a result of the strong objections of ASEAN leaders, Prime Minister Hawke has agreed to consult with ASEAN before shifting policy, and will seek a middle ground acceptable to his constituency and to ASEAN.

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12. Although pleased with its diplomatic accomplishments and the formation of the coalition, ASEAN remains frustrated by the internal bickering of the factions and handicapped by the legacy of the Khmer Rouge. Some in ASEAN prefer the status quo to any action that might antagonize Vietnam or precipitate further Chinese involvement, and are willing to accept a Hanoi-controlled Kampuchea as a buffer to Chinese expansionism. Indonesia, in particular, which assumes the ASEAN Standing Committee chairmanship in June, will continue to urge negotiations with Hanoi. There is no evidence to date, however, that indicates the Vietnamese are prepared to negotiate seriously on the issue of Khmer self-determination. Without some sign of Vietnamese flexibility, ASEAN is unlikely to deviate from the general guidelines of the ICK.

China

13. Beijing has downgraded links with Communist parties in Southeast Asia in an attempt to improve government-to-government relations. Beijing has refused, however, to renounce party-to-party ties, claiming that to do so would open the door to Soviet influence. Suspicions of Beijing's intentions remain strongest in Malaysia, Indonesia, and Thailand, where there are large Chinese communities. This explains why most ASEAN countries oppose major US arms sales to China.

Soviet Union

14. Although the Soviet Union had traditionally been regarded as constituting little direct threat to the region, Soviet military presence in Indochina and the South China Sea, the invasion of Afghanistan, and the exposure of KGB operations throughout Southeast Asia have heightened ASEAN fears. Unlike the Chinese, however, the Soviets are perceived as having little if any potential to encourage domestic insurgencies, although small pro-Moscow groups in Thailand and the Philippines are carefully watched. ASEAN is also concerned that the Vietnamese might be encouraged by their Soviet backers to undertake additional aggressive acts.

Security Cooperation

15. ASEAN is not a military alliance and is not likely to become one. Defense cooperation in ASEAN is largely bilateral and includes military exercises,

training exercises, border security cooperation, and intelligence exchanges. Emphasis is on improving interlocking bilateral security arrangements, in combination with individual efforts to upgrade conventional military capabilities. ASEAN countries have occasionally selected weapon systems with an eye on commonality. While these trends may continue, the individual ASEAN states will for the foreseeable future look principally to the United States for the region's defense. ASEAN leaders realize that their military power is no match for Hanoi and feel that a defense pact would only provoke Vietnam. (See annex G.) Also, nonaligned sentiment is especially strong in Malaysia and Indonesia, both of which would oppose any ASEAN-wide military pact with the West.

16. The major joint strategic and security cooperation consists of periodic ASEAN intelligence exchanges, mostly on Vietnamese military activity and on Soviet and Chinese involvement in Southeast Asia. The ASEAN-wide intelligence meetings are supplemented by more frequent bilateral exchanges, all conducted without publicity.

17. Some of the ASEAN states have treaty commitments to outside powers. New Zealand, Australia, and the United Kingdom are linked to Malaysia and Singapore under the Five-Power Defense Arrangement of 1971. Under this agreement a small contingent of New Zealand forces is stationed in Singapore and Australian aircraft are based in Malaysia. Despite its nonaligned policies, Malaysia welcomes the Australian Air Force presence. The United States also has formal treaty commitments to Thailand and the Philippines.

18. ASEAN states would look mainly to the United States if they were to be victims of a serious aggressive act. But, barring such an event, they prefer the current loose arrangements. They see no need to formalize either an ASEAN military arrangement or an ASEAN-US pact. Nonetheless, they find some comfort in the US military presence in the region.

Economic Trends and Issues

19. ASEAN is one of the world's fastest growing regions and is the fifth-largest trading partner of the United States. The member countries all aim toward further industrialization of their economies, and all are heavily dependent on trade, particularly with Japan and the United States. The economic performance of

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the ASEAN region is illustrated in annex E. The region's remarkable economic growth has resulted from individual ASEAN country endeavors rather than ASEAN group initiatives. In ASEAN's 15 years of existence, its progress on economic integration has been slow.

20. Singapore already is in the ranks of the "newly industrializing countries" (NICs) and the other ASEAN members hope to join that club within the next dozen years. Thus, their major economic concerns are growth, markets for their rising exports, and good relations with the United States and Japan as prime potential investors. Singapore and, to a lesser extent, the Philippines seek to foster more intra-ASEAN economic integration. Indonesia is and will probably remain less interested.

External Economic Relations

21. The most effective common effort among ASEAN members has been with third countries and international organizations. ASEAN countries have adopted "economic bloc" tactics to give their views more "clout," gain more aid and foreign investments, and improve access to major industrial markets. Despite persistent efforts to diversify markets, the trade of ASEAN countries has been and will continue to be largely with the industrialized market economies.

22. OECD countries have accounted for about 60 percent of ASEAN's total trade in recent years. In 1980, Japan absorbed 27 percent of the exports of ASEAN members and supplied 21 percent of their imports. The United States has managed to hold a relatively stable position as the second most important trading partner of ASEAN countries, buying about 17 percent of ASEAN exports and supplying about 15 percent of ASEAN imports.¹ (See table.) The European Community accounted for 13 percent of ASEAN exports and 12 percent of its imports in 1980.

23. ASEAN members place a high value on symbolic gestures by trade partners. Some ASEAN officials have stressed the need for a higher level of US participation in the US-ASEAN economic dialogue, noting that US support for ASEAN appears more political than economic. ASEAN officials consider the visits of high-ranking officials of Japan, the European Community, and Canada and their participation in

¹ A recent academic study indicates a disturbing development in US efforts to compete with Japan in the ASEAN region—a recent decline in exports of high-technology products to Indonesia and the Philippines. The study concluded that the reason for the decline lies more with US laws and lack of trade effort than with developments in ASEAN. See Lawrence Krause's *Policy Toward the Association of Southeast Asian Nations: Meeting the Japanese Challenge* (Brookings Institution, Washington, 1982).

ASEAN States: Trade With the United States, 1978-82
(million dollars)

	1978	1979	1980	1981	1982
Indonesia					
US Exports	721.7	968.8	1,392.9	1,264.3	1,943.8
US Imports	3,395.5	3,622.9	5,182.5	6,022.3	4,224.2
Malaysia					
US Exports	687.8	924.0	1,291.3	1,464.8	1,710.7
US Imports	1,439.3	2,152.6	2,584.5	2,185.0	1,884.6
Philippines					
US Exports	1,019.6	1,540.1	1,987.2	1,757.3	1,834.6
US Imports	1,130.2	1,490.8	1,749.0	1,974.0	1,806.3
Singapore					
US Exports	1,455.8	2,248.8	2,972.5	2,958.3	3,170.4
US Imports	1,057.8	1,479.6	1,920.8	2,113.6	2,195.3
Thailand					
US Exports	541.5	840.1	1,090.0	1,010.0	861.6
US Imports	414.2	600.1	815.4	945.8	883.9
ASEAN Total					
US Exports	4,426.4	6,521.8	8,733.9	8,454.7	9,521.1
US Imports	7,437.0	9,346.0	12,252.2	13,240.7	10,994.3

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formal dialogues as expressions of support for ASEAN goals.

24. Japan, in particular, has followed a deliberate policy of engaging ASEAN in high-level consultations—such as Nakasone's visit in early May—and encouraging Japanese cooperation with ASEAN private-sector initiatives. The Japanese and ASEAN chambers of commerce and industry meet regularly for talks on investment and industrial cooperation. The Japanese consider that cooperation with ASEAN as an institution could bring significant good will and commercial benefits to its large and growing ASEAN trade relations.

The Question of Integration

25. ASEAN members have not yet decided to pursue the long-run goal of economic integration. Prime Minister Lee of Singapore and President Marcos of the Philippines were once optimistic that ASEAN could form a free trade association by 1990.

26. Some degree of complementarity already exists in the region, particularly between Singapore and the other partners. Singapore could perform an even larger role as a distribution, financial, and service center for the region. Member-country economic development patterns are likely to increase complementarity, particularly in manufactured products. The potential for further growth in intraregional manufactured products trade is particularly good, partly because of the dynamic trade effects generated by the rapid pace of industrialization during the past few years.

27. Despite widely publicized "showcase efforts" at greater economic cooperation, intra-ASEAN trade has remained low, representing about 16 to 17 percent of ASEAN members' recorded total.² Moreover, a substantial part of the intraregional trade consists of entrepot activities centered in Singapore. Among ASEAN members, the Philippines has the lowest level of trade integration. Manila, attempting to diversify its markets and sources of imports, has shown the greatest enthusiasm in recent years toward greater intra-

² There is a downward bias in the recorded intraregional trading, particularly between Indonesia and Singapore, mainly because of undervaluation and smuggling. Theoretically, intra-ASEAN imports should, of course, equal intra-ASEAN exports. The differences are due to factors such as different valuation systems at ports of entry and dispatch and underinvoicing practices.

ASEAN economic integration. On the other hand, Indonesia has adopted shipping regulations intended to eliminate Singapore as a transshipment point.

28. ASEAN is not likely to develop into a free trade area, much less a common market, over the next decade. Progress within the institution will, instead, continue in a gradualist mold with emphasis on cooperative schemes arrived at by consensus. Intra-ASEAN trade will benefit from the cumulative effects of the generalized trade liberalization efforts and the experience gained through dealings among ASEAN businessmen, as well as from continuing economic development.

29. Economic integration, rather than closer cooperation among ASEAN members, could have greater effect on the US and Japanese economic roles in the region. Integration would not necessarily expand near-term opportunities for investment or trade for the United States. It might also lessen the attractiveness of Singapore and the other members with relatively more open economies. The elaborate business networks which Japan has built in Southeast Asia since the 1950s would be hurt to the extent that ASEAN's collective arrangements were granted preference over bilateral ties.

Problems and Prospects Over the Longer Term

30. A number of issues could cause problems for the ASEAN countries or for US relations with the region over the longer term. They range from domestic insurgent groups, often abetted by one or more of the Communist nations, through protectionism and rivalries for markets and investments.

Intra-ASEAN Developments: A Stronger ASEAN?

31. In the summer of 1982 the ASEAN Foreign Ministers created a special task force to recommend changes for the Association in the next decade. This action was motivated by concern that economic cooperation was proceeding too slowly and a hope that lessons might be learned for more successful forays into the international scene. Task force members discussed organization, trade barriers, commodity cooperation, industrial cooperation, legal coordination, transportation, communications, and the goal of ultimate regional neutrality under the ZOPFAN concept. The task force has no mandate to discuss military cooperation.

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32. The final task force report will probably contain a number of general recommendations, including:

- Recognition of the influence that ASEAN, as a body, carries in the United Nations and other multinational bodies and recommendation that members seek areas where an ASEAN position can be achieved.
- A call for the gradual reduction of tariff barriers within ASEAN and increased regional economic planning, with emphasis on the recently approved ASEAN Joint Ventures (AJV).
- Commitment to harmonize ASEAN commodity policy and to study alternative approaches to influence market mechanisms.
- Support for the gradual strengthening of the ASEAN Secretariat.

Other recommendations will stress the need for expanded cooperation in communications, technology transfer, transportation, and law and judicial procedures.

33. Task force members may also address the issue of ASEAN membership, urging that only Brunei be admitted to the organization. Such a recommendation would confirm ASEAN resistance to consideration of Papua New Guinea or Sri Lanka, two countries frequently mentioned as possible additional members. There may also be a recommendation that ASEAN oppose formal creation of a Pacific Basin organization, although language on this subject would be vague to avoid offending the South Koreans, who show increasing interest in Southeast Asian matters.

34. The task force will probably recommend restructuring the organization to give the economic ministers more authority. Tightening of the committee system and new mechanisms for third-country dialogues may also be suggested. While some ASEAN participants value the range of economic discussions characteristic of past dialogue meetings, others apparently favor limiting future agendas to specific issues on which agreement can be reached in advance.

Regional Concerns

35. A host of minor issues among ASEAN members will persist, ranging from the problem of refugees from Indochina through minor maritime and territori-

al claims, to law of the sea issues and seabed disputes. None is serious; none is likely to disturb the good relations among the member nations.

36. The refugee problem raises both intra-ASEAN and international concerns. The ASEAN countries expect third countries to continue to resettle refugees and otherwise help them cope with the refugee problem. ASEAN is concerned, however, that the UN-sponsored program for orderly departure (the ODP) from Vietnam could eventually limit the ability of third countries to absorb Vietnamese refugees from ASEAN countries. The adoption of more restrictive policies by the United States or other resettlement countries would then become a source of friction. The absence of possibilities for large-scale repatriation of Indochinese refugees limits the options currently available to first-asylum countries. Measures aimed at deterring refugees in a humane way are being developed, but, if humane deterrence fails, some first-refugee countries will use harsh measures to deter new arrivals, thus raising some of the problems the United States previously experienced in coping with this issue.

37. Within ASEAN, many of the competing maritime claims have been amicably resolved, although minor disputes over small islands still exist between Singapore and Malaysia and between Malaysia and the Philippines. Malaysia and Indonesia signed a treaty in early 1982 in which Malaysia recognized Indonesia's archipelagic principle in exchange for guarantees of undisturbed air and sea passage between East and West Malaysia. Thailand and Malaysia have delineated their sea boundary and agreed to share seabed exploitation of the one unresolved area.

38. Illegal fishing also continues to be a source of conflict among the ASEAN states. In 1982, for example, Malaysia and Indonesia detained a total of eight Thai fishing trawlers.

39. As resource exploitation of the seabed begins in these potentially mineral-rich areas, tensions are likely to increase. In the past, ASEAN countries have periodically placed markers or small military units on contested reefs or islets, but so far the ASEAN states have been unwilling to use force to dislodge each other.

40. In addition to these territorial disputes, the law of the sea negotiations and increased Soviet naval presence have underscored concerns about the right of passage through the straits of Southeast Asia. Piracy

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and smuggling further complicate maritime relations, but increased patrol capabilities should help to reduce these activities in the future. However, complicity of local authorities will prevent the elimination of these illegal and lucrative activities.

Economic Relations With the Developed Countries

41. ASEAN economic growth will continue to outpace that of other LDC regions, making it a growth market for US goods. Meanwhile, years of political stability and profitable opportunities make the area attractive for new US investment. Lower wage scales in the region will draw foreign capital that for the past five to 10 years gravitated toward northern Asia. Wage levels in these northern countries have become too high for some labor-intensive manufacturers. Only Singapore will move into the more sophisticated manufactures over the next several years.

42. Japan is likely to remain the ASEAN region's principal economic partner and present the stiffest competition with US exports. We expect the Japanese to maintain their sensitivity toward ASEAN's institutional evolution, which aids their commercial efforts.

43. The ASEAN states, particularly Malaysia, have perceived the United States as indifferent or insensi-

tive to some of their interests and to the region as a whole. US efforts in the ASEAN markets will probably be enhanced by current endorsement of US private business cooperation with ASEAN private-sector initiatives. High-level US consultations and visits are improving these perceptions.

44. Any criticism of the United States is likely to be tempered by ASEAN's desire to promote technology transfer and investment. ASEAN would like the United States to promote ASEAN trade, increase ASEAN access to US markets, accelerate private investment, and assist regional projects. For example, ASEAN officials have feared that the Caribbean Basin Initiative would divert US attention and investment from Southeast Asia and possibly impact negatively on sugar exports and light manufactures.

45. Thus, although ASEAN as an organization will remain hesitant to move rapidly toward integration, there will be increasing economic cooperation, and the region will continue to experience dynamic economic growth. Its industrialization schemes suggest large import requirements in capital goods and technology, which offer promising trade opportunities for the United States despite the possibility that the region could pose increased competition in manufactured exports such as electronic components.

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ANNEX A GENESIS OF ASEAN

1. The two direct antecedents of ASEAN were the Association of Southeast Asia (ASA) and Maphilindo. ASA was created on 31 July 1961 by Thailand, Malaya (which became Malaysia in 1963), and the Philippines. It called for an annual meeting of foreign ministers and the creation of committees on sociocultural, economic, and technical cooperation. The organization had little chance to become active, however, because the Philippines and Malaysia suspended diplomatic relations in 1963 over the Sabah issue. ASA's revival in 1966, however, led to the formation of ASEAN.

2. Maphilindo was conceived by Philippine President Macapagal in 1963 to promote the concept of a Greater Malaya and to keep open his claim to North Borneo. The Manila Accord, signed by the leaders of Indonesia, Malaysia, and the Philippines, called for

cooperation to maintain stability in the region and stated that foreign bases were "temporary in nature." Maphilindo collapsed with the breaking of relations between Indonesia and Malaysia under the late President Sukarno's "confrontation" policy. Although a failure, Maphilindo was Indonesia's first regional involvement and thus helped lay a foundation for ASEAN.

3. The abortive coup in September 1965 in Jakarta marked the beginning of the end of Sukarno's power and a new emphasis on regional cooperation under General Soeharto. With confrontation between Malaysia and Indonesia over, Thai Foreign Minister Thanat Khoman drafted a proposal for a Southeast Asian Association for Regional Cooperation (SEAARC) which, in revised form, became ASEAN.

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ANNEX B

ORGANIZATION

1. ASEAN's elaborate committee structure is governed in large measure by ministers who make decisions by consensus. Although criticized by Westerners who see consensus decisionmaking as contributing to inaction, ASEAN policymakers would have it no other way. Items are tabled if consensus cannot be achieved, avoiding argument and disunity that might result from majority rule. Once a decision is achieved, all members are firmly committed, having negotiated quietly behind the scenes to arrive at a common position. This practice has worked well, particularly on the Kampuchean issue. There is some evidence that the consensus protocol occasionally breaks down, however, as shown by Malaysia's unilateral announcement of intention to manufacture a car and Thailand's independent agreement with the European Economic Committee on multifibers. The major problem for the ASEAN organization, however, continues to be the translation of ministerial decisions into effective policy.

2. Philippine officials, influenced by their Western cultural heritage, have repeatedly urged that ASEAN write a constitution and bylaws that specify modes of operation and channels of authority. The ASEAN majority, however, prefer the generalized wording of the Bangkok Declaration, the Declaration of ASEAN Concord, and the Treaty of Amity and Cooperation in Southeast Asia as sufficient foundation for an ad hoc decisionmaking process.

Secretariat

3. ASEAN has deliberately restricted the growth of supranational bureaucracy. The Secretariat was first proposed in 1968, but did not materialize until 1976. Indonesia and the Philippines pushed for a strong Secretariat with a long-term secretary general to make policy initiatives. There was too much opposition, however, and the secretary general was given a two-year tour and little more than caretaker responsibilities. The current Secretary General, Dr. Chan Kai Yau from Singapore, is frustrated by lack of support

for the Secretariat, noting that he even has difficulty in gaining access to funds pledged by the member states. His staff must continually plead for long-overdue reports and studies from the five country secretariats. Only after several years of painstaking negotiation was the decision made to add five economists to the Secretariat staff. The Secretariat occupies a large, virtually empty building in Jakarta and still lacks a useful data base, library, and communications center. The majority remain reluctant to donate more money and yield authority to the supranational bureaucracy. Many ASEAN leaders believe that such a bureaucracy would tend to inhibit the informal exchanges at the ministerial level, a key to ASEAN's success.

Summits

4. Despite regular ministerial conferences, the ASEAN heads of state have not met since the 1977 summit in Bali. Despite calls for another heads-of-state meeting, there is an apparent great reluctance to meet. ASEAN leaders even contrived to avoid meeting simultaneously in Bangkok at the time of the Thai Bicentennial celebration in 1982. Malaysian Prime Minister Mahathir has toned down his predecessor's adamant refusal to meet in Manila, but is unlikely to go until the Sabah issue has been resolved to his satisfaction. Other heads of state have expressed reluctance to meet on the grounds that summits demand startling, breakthrough press statements, something unlikely to be generated by the ASEAN gathering. Until there is a compelling reason for the leaders to meet—and an agreed-upon outcome—a summit remains unlikely.

5. The foreign ministers are technically responsible for "the formation of policy guidelines and coordination of activities." In fact, it is the economic ministers who have dealt with the increasingly complex economic issues. Yet, their decisions must frequently await approval by the foreign ministers. Meetings of ministers of labor, social welfare, education, and information have also been officially established. Personal

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and hierarchical conflicts have contributed to delays in decisionmaking. While several structural changes have been proposed to ease the ministerial conflict, the foreign ministers do not favor adjustments that might dilute their authority.

Committee System

6. The Standing Committee, which is responsible to the foreign ministers, is another stage in the decision-making process. It is a floating group chaired by the foreign minister of the country that hosts the next foreign ministers' meeting and includes the resident ambassadors of the other four countries as members. The Standing Committee is currently chaired by Thai Foreign Minister Sitthi in anticipation of the June 1983 ministerial in Bangkok. Supposedly responsible for budget and communication, the Standing Committee's transient nature has prevented its development as a productive body. Indeed, it is often cited as a handicap to progress. There is a move afoot to abolish the Standing Committee or to make it a permanent unit but, once again, a consensus on its future is lacking.

7. An elaborate committee system has evolved as ASEAN tackles new fields. There are nine permanent committees under the auspices of the Economic Minis-

terial. Five are divided among the members: Thailand is responsible for finance and banking; Malaysia for transport and communications; Singapore for trade and tourism; Indonesia for food, agriculture, and forestry; and the Philippines for industry, minerals, and energy. The remaining four committees are not linked to any specific ASEAN member. These committees have spawned a number of subcommittees, often with conflicting responsibilities and little authority. Some committees rarely meet, while others are quite active with overlapping programs. Even the Secretariat is hard put to name all the committee members or identify their projects.

8. Each member state has a national secretariat of varying quality and size in its ministry of foreign affairs. Indonesia's large staff has a reputation in ASEAN for inefficiency, while some members of Singapore's minuscule staff are not only efficient but wear two hats. Each secretariat complains about numerous, fruitless meetings generating mountains of paper and about the little support provided by the ASEAN Secretariat. National secretariats have varying influence within their own foreign policy establishments, and with other ministries and agencies, and most of their work appears to be a reaction to ministerial discussions rather than the initiation of policy proposals.

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ANNEX C EXPANDED MEMBERSHIP

1. Although a formal invitation has not been extended, Brunei is expected to become ASEAN's sixth member shortly after it achieves independence on 31 December 1983. Brunei until recently was suspicious of its larger neighbors, Malaysia and Indonesia. Relations have improved markedly, and the fact that Brunei has held observer status in ASEAN should assure smooth integration into the region. ASEAN finds Brunei's high per capita income and stable economy attractive, and appreciates its strategic location within the ASEAN archipelago.

2. No further expansion is likely in the next five years. ASEAN has expressed some interest in admitting Burma, but the Burmese have indicated they have no desire to join. Papua New Guinea and Sri Lanka are occasionally mentioned as members (in fact, Sri Lanka has specifically expressed an interest) but there is no consensus in ASEAN in favor of their membership. Papua New Guinea has had observer status in ASEAN for several years and was given special status

in 1981 to allow its delegates to speak on matters of direct interest.

3. Rumors periodically surface that ASEAN may extend dialogue status to South Korea or to Latin American and African organizations, as it has to the European Economic Community. A number of members have political reservations about including South Korea and would prefer to keep the dialogues at the present number. Similarly, reservations have been expressed about Pacific Basin Community proposals, for fear that a formal organization would dilute ASEAN influence in the region and probably be dominated by Japan. The ASEAN Secretariat does have periodic contact with the Secretariat of the South Pacific Forum, but neither organization has shown much interest in more extensive ties. Individual ASEAN states are showing increased interest in the South Pacific area, and diplomatic and trade relations with states in that region are likely to grow.

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ANNEX D

ECONOMIC COOPERATION

Trade Liberalization

1. Trade cooperation has consisted principally of the regular negotiations of intra-ASEAN tariff reductions as stipulated by the 1977 Preferential Trading Arrangements (PTA). These tariff reductions, negotiated on an item-by-item basis, were raised from around 10 percent initially to an average of 20 to 25 percent. To further speed the process, ASEAN members agreed to across-the-board tariff cuts on progressively higher value items in intra-ASEAN trade. In April 1980 a 20-percent margin of preference was extended to all items with 1978 import values of less than \$50,000. This ceiling was raised to \$500,000 in 1981 and to \$2.5 million by 1982.

2. The number of items on which intra-ASEAN tariffs have been reduced has been large (8,529 by January 1982) and growing, but the trade expansionary impact has been relatively minor. Preferences on "coals to Newcastle" products or on items where ASEAN partners are unlikely to have productive capacity pad the numbers. Under continuous pressure to offer a set number of items for inclusion in the PTA at each negotiating round, member countries tend to offer irrelevant items or to break items down into detailed variants, each one of which is then offered as an individual product for preferential treatment. To cite an absurd example, the Philippines has reduced the import tariff on snow plows from 20 percent to 18 percent for ASEAN producers. As for across-the-board tariff reductions, they are subject to national exclusion lists of "sensitive items," which greatly weaken their impact.

3. In November 1982, ASEAN further liberalized the PTA, but some ASEAN officials acknowledge that this latest move is likely to have only modest impact. The ASEAN economic ministers agreed to across-the-board tariff cuts of 20 to 25 percent on items with import values of up to \$10 million. They also recommended that tariff cuts on nonfood items already under the PTA and on future exchange arrangements be deepened to a maximum of 50 percent.

Industrial Cooperation

4. The first substantive program of ASEAN industrial cooperation was the well-publicized 1976 package deal of five ASEAN Industrial Projects (AIP). Each AIP, then valued at \$250-300 million, was to be owned jointly by ASEAN member countries, with the host country holding 60-percent equity and the other four countries 10 percent each. The output would be eligible for preferential trade under the ASEAN PTA. The initial package included urea plants for Indonesia and Malaysia; a superphosphates plant for the Philippines; a soda ash facility for Thailand; and a diesel engine factory for Singapore. The idea was given a boost by Japan in August 1977 when Prime Minister Fukuda pledged \$1 billion in financial support if studies established the economic viability of the projects.

5. Progress on AIPs has been limited, with only two industrial projects close to realization. These two—natural-gas-based urea plants in Aceh, Indonesia and Bintulu, Malaysia—would probably have been undertaken anyway. The ASEAN label was merely attached to national development efforts. Lengthy Japanese feasibility studies compounded delays arising from domestic and technical considerations. Difficult political wrangling over site selection held up agreement on Thailand's soda ash project until June 1982, and difficulties in finding private Thai investors are likely to delay it further. The Philippines finally selected a copper fabrication plant, which was approved by ASEAN in January 1982, after abandoning two previous project proposals—the superphosphates plant and then a pulp and paper mill.

6. Intra-ASEAN rivalries prevented agreement on Singapore's diesel engine project. Singapore had to withdraw its proposal because Indonesia and Malaysia refused to grant import preferences to Singaporean engines that would compete with their domestic engines. Singapore decided to build its diesel engines as a national scheme. However, it did not put forward a new industrial project for ASEAN approval and has

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kept only a token interest of 1-percent financing in the AIP program. Singapore agreed to continue in the program only because Japanese concessionary financing terms required that the ASEAN projects be financed by all five members.

7. Critics of the AIP program complain that the big ventures are costly, cumbersome to organize, and may not bring significant long-term economic benefits. Malaysian aides have suggested privately that the program be dropped, adding to doubts that a planned second round of government-backed AIPs will get off the ground.

8. The ASEAN Industrial Complementation (AIC) scheme was an additional "showcase" device for promoting industrial cooperation by encouraging firms in member countries to specialize in products complementary to each other. Unlike AIPs, which are basically government projects, sectoral complementation projects are based on private initiatives and are implemented as private-sector projects, with governments providing only the legal framework. AIC products are to be granted a 50-percent margin of preference under the PTA as well as nontariff preferences negotiated bilaterally. Only an auto complementation scheme—so far, consisting of two approved packages—has been agreed to by ASEAN members.

9. Competing national interests have caused the complementation scheme to bog down in bureaucratic red tape and equivocation. Plans by Indonesia and Malaysia to each develop a national automobile industry appear to have ended the original intent of the automotive AIC to produce an "ASEAN car." Singapore has argued that having to give special treatment to AIC products would lead to further protectionism and the granting of monopoly rights within the region for ASEAN products. Prime Minister Lee even suggested in 1980 that a member country should be permitted to abstain from participation in the complementation scheme, arguing that "when four agree and one does not, this can still be considered as consensus and a five-minus-one scheme can benefit the particular four without damaging the remaining one." A weaker compromise agreement limiting the preferences for AIC products was finally reached.

10. A recent and most promising proposal for ASEAN private-sector industrial cooperation is the ASEAN Industrial Joint Ventures (AIJV) plan. This

plan—which has been pushed hard by businessmen in the ASEAN Chambers of Commerce and Industry—languished for more than two years while ASEAN officials tinkered with its main provisions. Under the plan—finally approved in November 1982—products made by joint ventures controlled by two or more ASEAN private investors can qualify for a 50-percent tariff reduction when traded between participating ASEAN countries. After three years, products would automatically be given preferential treatment by all five countries. Since only two ASEAN countries need participate in an AIJV, the new program will indeed make it easier for ASEAN private firms to establish joint ventures.

11. Some ASEAN businessmen believe that the joint-venture program may be the needed catalyst to more intra-ASEAN investment and trade. However, ASEAN governments still will have the final say on what products will qualify for the plan. As with earlier industrial cooperation efforts, differing governmental plans and perceptions may restrict the potential of the AIJV plan.

Cooperation in Other Economic Sectors

12. ASEAN has established various other programs with modest goals and limited success. Agricultural programs have been pursued under the framework of the ASEAN Common Agricultural Policy, which seeks to increase interdependence and cooperation in the production of foodstuffs. A Food Security Reserve Agreement, which provides for establishment of a 50,000-ton emergency rice reserve, was signed in late 1979. In the field of transport and communications, a wide spectrum of programs seeking to harmonize and unify existing systems have been approved. However, lack of funding has hampered implementation, and only 26 of 114 initiated projects have been completed.

13. ASEAN has made some progress in financial cooperation. A \$200 million swap arrangement was established in August 1977 among ASEAN monetary authorities to help member countries with temporary international liquidity problems. The ASEAN Finance Corporation (AFC) was established in March 1981 to help finance private projects involving more than one ASEAN country. Its objectives are to participate in and attract financing for industrial development projects in the region; to promote intraregional trade; to

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promote financial cooperation within ASEAN; and to mobilize resources for the AIP, AIC, and AIJV schemes. It has a paid-up capital of \$48 million contributed by major banks and financial institutions in all five ASEAN countries.

14. The AFC, incorporated in Singapore, has the legal status of a merchant bank operating in an offshore Asian Currency Unit (ACU). It could accept deposits in US dollars and other offshore currencies and could extend loans in such currencies. The AFC has just assembled a professional staff, is considering cofinancing of several regional project loans, and is planning a major fund-raising effort for future development bank-style operations.

15. Concrete cooperation within ASEAN in the energy field has been limited. In 1976 the ASEAN states agreed to aid any member country suffering from an energy shortfall of more than 20 percent of its normal requirements. But ASEAN is not likely to advance from an emergency petroleum-sharing scheme to common management of energy resources. Indonesia and Malaysia cannot afford to sell large amounts of oil on concessionary terms to other ASEAN members, for they need foreign exchange for their national development plans. Oil and gas exploration on a regional basis has been discussed but is unlikely to proceed. With the current world oil glut, the incentive to increase energy cooperation has been reduced.

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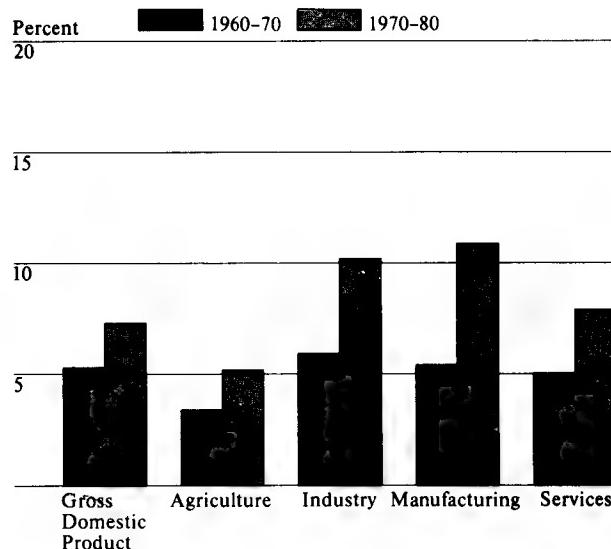
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ANNEX E

ECONOMIC INDICATORS

This annex, in figures 1, 2, and 3, summarizes production and trade data over two separate periods for the ASEAN states. Our source of information is the World Development Report, 1982 (calculations by J. P. Estanislau and A. A. Aquino in "An Economic Overview of ASEAN," Center for Research and Communications, Manila, February 1983).

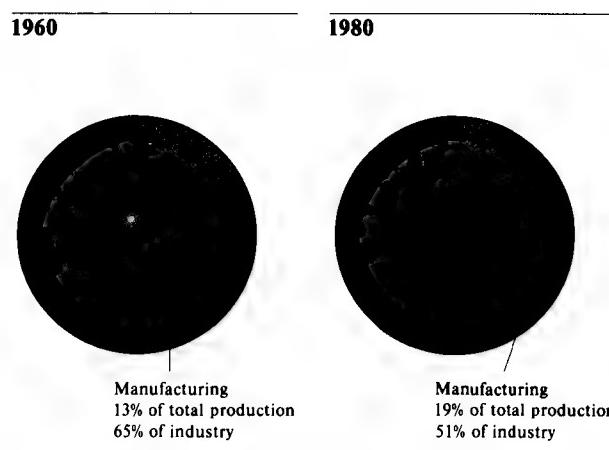
Figure 1
ASEAN States: Growth of Production



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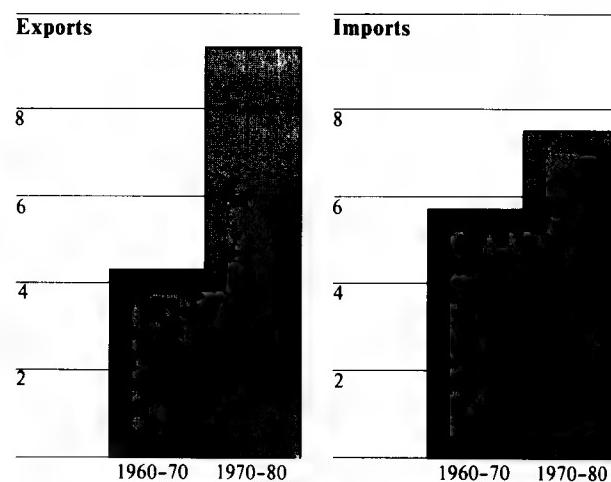
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Figure 2
ASEAN States: Structure of Production
(Proportion of Gross Domestic Product)



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Figure 3
ASEAN States: Growth of Merchandise Trade
(Average Annual Growth in Percent)



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ANNEX F

CHRONOLOGY OF KEY EVENTS

August 1967 Bangkok	ASEAN formed with signing of ASEAN or Bangkok Declaration by Ministers Malik, Indonesia; Razak, Malaysia; Ramos, Philippines; Rajaratnam, Singapore; and Thanat Khoman, Thailand.
August 1968 Jakarta	Second Ministerial Meeting. Established annual meeting on economic and other nonpolitical subjects.
December 1969 Cameron Highlands	Third Ministerial Meeting. Agreement for promotion of cooperation in mass media and cultural activities. Established joint ASEAN fund to finance regional projects.
March 1971 Manila	Fourth Ministerial Meeting. Recommended and approved 124 projects.
November 1971 Kuala Lumpur	Special Ministerial Meeting to sign the Kuala Lumpur Declaration calling for recognition of Southeast Asia as a Zone of Peace, Freedom, and Neutrality.
April 1972 Singapore	Fifth Ministerial Meeting. Senior officials initiate series of political meetings.
April 1973 Pattaya	Sixth Ministerial Meeting.
May 1974 Jakarta	Seventh Ministerial Meeting.
May 1975 Jakarta	Eighth Ministerial Meeting. Joint declaration of ASEAN parliamentarians (January) and journalists (March).
February 1976 Bali	Summit meeting to sign the Declaration of ASEAN Concord and the Treaty of Amity and Cooperation; permanent secretariat approved; discussion of large-scale industrial projects.
March 1976 Kuala Lumpur	Economic Ministers agreed to implement first five ASEAN industrial projects.
June 1976 Manila	Ninth Ministerial Meeting.
June 1976	ASEAN Secretariat established in Jakarta.
February 1977	Commemorative ministerial meeting, concluded Agreement on ASEAN Preferential Trading Arrangement; established emergency sharing schemes in energy and rice.

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July 1977 Singapore	Tenth Ministerial Meeting. Declaration of principle to combat abuse of narcotic drugs; declaration for mutual assistance in natural disasters.
August 1977 Kuala Lumpur	Summit meeting coinciding with celebration of 10th anniversary of founding of ASEAN.
June 1978 Pattaya	Eleventh Ministerial Meeting.
August 1978	First US-ASEAN Dialogue, creation of US-ASEAN Business Council.
December 1978	Vietnamese invasion of Kampuchea. ASEAN Foreign Ministers met in January 1979 to deplore the Vietnamese attack and call for UN action to restore peace.
June 1979 Bali	Twelfth Ministerial Meeting.
November 1979	UN General Assembly passes ASEAN resolution on Kampuchea calling for international humanitarian relief, resettlement of displaced Khmer, withdrawal of all foreign forces from Kampuchea, and Kampuchean self-determination.
May 1980	Second US-ASEAN Dialogue.
June 1980 Kuala Lumpur	Thirteenth Ministerial Meeting; Post-Ministerial meetings with dialogue countries.
September 1980	Third US-ASEAN Dialogue.
October 1980	UN General Assembly passes ASEAN resolution on Kampuchea.
June 1981 Manila	Fourteenth Ministerial Meeting; Post-Ministerial dialogues.
July 1981	UN International Conference on Kampuchea held in New York. Conference declaration called for Vietnamese withdrawal followed by free elections.
October 1981	UN General Assembly passes ASEAN resolution on Kampuchea.
December 1981 Bangkok	ASEAN Foreign Ministers meet.
March 1982	Fourth US-ASEAN Dialogue.
June 1982 Singapore	Fifteenth Ministerial Meeting.
October 1982	UN General Assembly passes ASEAN resolution on Kampuchea.
24-25 June 1983 Bangkok	Sixteenth Ministerial Meeting followed by meetings with dialogue countries.

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ANNEX G

COMPARISON OF ASEAN AND VIETNAMESE MILITARY FORCES

Individual ASEAN states have undertaken defense improvements in recent years, encouraged primarily by Vietnamese and Soviet activities in the region. Thailand, Indonesia, Singapore, and Malaysia have improved their deterrence capability through the

modernization and expansion of combat forces, weapon systems, and surveillance capabilities. Except for a current naval advantage, ASEAN's collective military strength remains no match for that of Vietnam

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